

Entrepreneurship

Unit 3.2A: Creating the Business Plan (KEY)

“A Complete Discussion of Legal Forms of Ownership”

Student: _____ Date: _____ Period: _____

1. Forms of Legal Ownership

- Sole Proprietorship
- Partnership
- Corporation
 - Subchapter S Corporation
 - C-Corporation

2. Other Legal Form of Ownership

Limited Liability Company

3. Characteristics of a Sole Proprietorship

- Owned and operated by one person
- Easy to create
- Receives all profits, incurs any losses, and is liable for the debts of business
- Most entrepreneurs often switch to another form that provides more personal financial protection as the business grows

Advantages of a Sole Proprietorship

- ✓ Easy and inexpensive to create
- ✓ Owner receives all profits
- ✓ Least regulated form of ownership
- ✓ Business pays no taxes. Owner pays personal income taxes which is a lower rate than the corporate tax rate.

Disadvantages of a Sole Proprietorship

- ✓ Unlimited liability
- ✓ Full responsibility for all debts
- ✓ Owners personal assets are at risk (i.e., home, car, etc.)
- ✓ May have insufficient skills
- ✓ Upon death, the business dissolves

4. Characteristics of a Partnership

- A business with two or more owners
- Partners do not have to share a business equally
- How the partnership interests are divided are spelled out in the Partnership Agreement.

Advantages of a Partnership

- ✓ Inexpensive and easy to create
- ✓ Share ideas, abilities, and financial obligations
- ✓ Owners pay taxes as personal income which is taxed at lower rate.

Disadvantages of a Partnership

- ✓ Difficulty in dissolving partnership
- ✓ Personality conflicts
- ✓ Partners held liable for each other's actions

5. Characteristics of a Corporation

- Registered by the state and operates apart from its owners
- A corporation lives-on after the owners die or have sold interest
- Ownership is represented by shares of stock, public or private

Advantages of a Corporation

- ✓ Corporations are separate legal entities from the owners
- ✓ Perpetual Existence: The corporation is not dissolved upon death of owners
- ✓ Shareholder's liability is limited to amount invested. However, officers may be personally liable; i.e. Enron's late Kenneth Lay

Disadvantages of a Corporation

- ✓ Expensive to start and requires a lot of legal paperwork. Must hire attorneys.
- ✓ Corporation owners are seemingly double-taxed
- ✓ The business' profits are taxed at a higher corporate rate
- ✓ The owner's income from the business (or shareholder's dividends) is also taxed as personal income

6. Characteristics of the Two (2) Types of Corporations

C-Corporation

- The most common corporate form for **large** businesses (i.e., Federal Express, Microsoft)
- Can create status that may assist in getting loans
- Shareholders are owners of the corporation
- Required to have an elected Board of Directors to make decisions for the company
- Structured to accommodate employee benefits; i.e., pensions, retirement plans, and profit sharing

Subchapter S Corporation

- Designed for owners of **smaller** companies who want the liability protection of a corporation, but want to avoid double taxation
- Shareholders liable to amount invested
- In smaller private corporations, the founders generally hold all-or a majority—of the stock.

****Pass-through Taxation:** Profits are taxed once at shareholder's personal tax rate

7. Other Forms of Ownership

- Limited Liability Company
- Nonprofit Corporations

8. IMPORTANT: Before you start your company...

Check with your:

- ① State
- ② Accountants
- ③ Attorneys

Why? To determine which form of legal ownership most benefits your needs, company size, financial status, and issues of liability.